

# EUROPEAN PARLIAMENT

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## WORKING DOCUMENT

on

Agricultural protection or freer trade :  
the development of agricultural trade in  
the light of possible modifications in the  
American import quota system for dairy  
produce

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## AGRICULTURE : A KEY ELEMENT IN GATT NEGOTIATIONS

1. Since 1947, the General Agreement on Trade and Tariffs (GATT) has been the principal forum for negotiations for the mutual reduction of tariffs and other obstacles to trade.
2. The seventh round of multilateral trade talks since the Second World War, launched by the Tokyo Declaration of September 1973, has failed to go beyond the stage of preparatory talks. It is to be hoped that the political impetus will develop to carry the talks through to a successful conclusion; but negotiations are increasingly threatened by a wave of demands for higher protectionist walls as the world recession continues to take its toll of employment. Unless the present round of talks succeed, these demands may become fact, and ever greater limitations on free trade the instrument of national policy.
3. Agricultural questions are essential, however, to a successful conclusion to the Tokyo round of negotiations :
  - due to the insistence of the U.S. that agriculture should not be dealt with separately from industrial questions;
  - and in view of the demand of the developing countries, whose exports consist largely of agricultural produce, that a more equitable international system be established.

A compromise on agricultural questions between the Community and the USA is one necessary condition for the success of the Tokyo Round, particularly since the key products for the Community's agricultural trade partners, and for any major attempt to liberalise world agricultural trade, are those temperate products (dairy products, beef and cereals) which form the cornerstone of the Common Agricultural Policy, and which benefit from the strongest price guarantees. This is true of the Community; it is no less true of the United States. Any worthwhile agreement between the two principal actors will require, therefore, a close examination of the relationship between trade obligations and internal policy.

## KEY PROBLEMS IN AGRICULTURAL TRADE TALKS

4. Differences in goals between domestic and trade policies are particularly difficult to reconcile, both at the political and the economic levels.

Agriculture, given geographical variations, dependence on climate and the ensuing need for support mechanisms, falls into a different category to the industrial sector, and cannot be considered merely in terms of tariff reduction.

The basic aims of the Community's agricultural policy are defined by Article 39 of the Treaty of Rome : a fair standard of living for the agricultural Community, stability of markets, and availability of supplies to consumers at reasonable prices.

5. An open attitude to agricultural negotiations is made more difficult for the Community by the increasing imbalance in agricultural trade : United States agricultural exports to the Community have increased from \$1.8 million in 1968, to \$4.4 million in 1973 and \$6.4 million in 1976, and now show a surplus in favour of the United States of \$ .2 million. The Community now takes over a quarter of all U.S. farm exports.

6. At the same time, the Community is the principal trader in agricultural produce, and the second largest exporter, after the United States. Trade expansion is in the interest of both areas. The problem is to find a negotiable package that :

- a) will avoid extreme supply and demand fluctuations on world markets and minimize the drift to protectionism;
- b) and will unblock the deadlock that exists in talks on the individual products, wheat, beef and dairy produce.

A series of related commodity agreements is required. The cereals market has always held the key to agricultural trade talks. The differences between the U.S. and EEC on a future grains agreement (particularly the degree to which it should incorporate an active policy of intervention in the world market to stabilize prices) are open to solution. The extent to which such an agreement is politically possible depends on the willingness of the United States to adopt a more liberal approach to agricultural trade in other areas.

#### CHANGING U.S. AGRICULTURAL POLICIES

7. Talks on agricultural trade have in recent years been held up as the U.S. waited for reform of the CAP and the EEC waited for the new U.S. administration.

Following the entry into office of the Carter administration, progress towards a possible compromise seems more likely, with a more open approach adopted and less insistence placed on questioning the principles of the CAP.

8. Until recently, the United States was deeply involved, as were other countries, in policies to support farm incomes, partly through tariffs, formal import embargoes and quotas and informal arrangements with suppliers to limit shipments. Policy was directed towards domestic farm prices rather than trade expansion. In the course of the 1960s, official thinking became directed more towards the trade benefits that could derive from liberalization of farm trade policy. A number of studies indicated the trade gains that could be made through liberalization, particularly from the exports of animal products, grains, oil seeds, tobacco and cotton. Vigorous export policies for agricultural produce resulted in the expansion of valuable earnings from overseas sales. This strengthened the resolve of the U.S. Government to ensure that the Tokyo round of the GATT negotiations led to the significant liberalization of trade in agricultural produce. This late conversion to trade liberalization was highly selective in those products in which the U.S. had a clear competitive advantage. On the other hand, for those commodities such as dairy products, in which the U.S. is clearly incompetent, there is very strong resistance on the part of producers and their representatives in Congress to any liberalization.

9. Even in the dairy sector, which is the most protected sector of U.S. agriculture, it has appeared that there are no insurmountable economic objections to the removal of quotas. The impact on EEC exports would be considerable. If the U.S. had already lifted import restrictions in 1975, some 12 billion pounds of milk equivalent may have entered that year, i.e. more than 10% of U.S. production. At the moment, only 1.5 of U.S. needs are imported. The U.S. has calculated that initially incomes of U.S. dairy farms under free trade conditions would drop by 20% - 30%, but that by 1980 the farms remaining in activity would obtain somewhat higher incomes than in the case of continuing import restrictions.

10. Clearly, it is of vital interest to the Community to encourage America along the road to a more open agricultural market. In milk products, wine alcohol and processed meats a partial solution to some of the surplus problems facing the Community could be found.

This can only come about with a greater flexibility on the part of the Community. There can be no question of the Community abandoning the basic

principles of the CAP; but a greater flexibility in negotiating might bring about considerable progress, making it easier for both the Community and the U.S. to leave their entrenched positions and take a more positive negotiating role. Indeed, the Community has already indicated that its position on export refunds (one of the principal U.S. objections to the CAP) might be adjusted.

11. It is equally clear that agreements on cereals would greatly reduce the cost of domestic support programmes in the United States and provide for a more stable market.

#### DEVELOPING COUNTRIES

12. Resolution of the conflicts on farm policy between the EEC and the U.S. is one essential condition to a successful conclusion to the Tokyo Round. The second is to convince the developing countries that the international trading system is sufficiently responsive to their interests, and the needs of development policies.

13. Since 1968, the Community has taken the lead in opening its borders to produce from developing countries, by means of the generalised preferences system, and in seeking greater stability for the exports of developing countries through the Lomé Agreement.

14. The United States has yet to make a significant contribution to the demands of the Third World, which, if satisfied, would provide a much needed stimulus to world trade.

15. The task of reaching more stable world agricultural markets will be all the more difficult if the U.S. continues to refuse to recognise the trilateral nature of much of agricultural world trade, U.S.-EEC-developing countries, and offers the minimum of generalised preference concessions in the agricultural sector.

#### CONCLUDING QUESTIONS

16. One can conclude by saying that greater international specialization of agricultural produce, carried out in the framework of international commodity agreements, could lead to increased prosperity for producers and greater stability on world markets.

17. All parties, however, must benefit. The exceptional increase in American agricultural exports to the Community, particularly feed grains and soya, are partly at the base of the increase in Community milk production and the present surplus.

18. The EEC does not wish to contest these imports from the U.S.; but there must be a counterpart to allow the Community to face up to the impact of these imports on internal markets and at the same time to reply to the views put forward by America in the GATT negotiations.

19. The principal interest of the EEC is to have the possibility to increase its exports of dairy produce to the American market.

The question which must be asked, therefore, concerns the conditions under which the U.S. will agree to grant Community producers freer access to the American market.

In which directions should the Community modify its present external agricultural policy :

- modification of export refunds on dairy produce;
- conclusion of an agreement to regulate the world cereals market, or the entry price into the Community;
- or guarantees concerning future imports of soya or feed grain from the United States ?

20. Finally, the Community wishes to know whether the United States intends to adopt as liberal an approach to import of agricultural products from developing countries as that adopted by the Community.





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